

CO-OPERATIVE FEDERATION OF VICTORIA LTD.



NEWSLETTER

GPO Box 5211AA, Melbourne, Vic 3001.

TAX

Co-operative Federation seminar

The finance and taxation seminar was attended by a variety of co-operatives. It would appear they share some concerns regarding taxation and financial matters. Speakers outlined the importance of developing a sound financial structure for the co-operative and outlined many ways by which this could be done.

One interesting suggestion was to regularly ask members to increase their shareholding, timing such requests to coincide with the mailing of rebate cheques. One speaker stressed the importance of retained earnings. He put forward the view that retained earnings were an efficient and appropriate way of financing the business.

Reserves created from retained surplus were cost free i.e. bore no dividend or interest expense and were an important element to the entity's finance mix. This view was supported when another speaker stressed that co-operatives should be willing to pay some tax; that co-operatives should resist the temptation of rebating back to members all surplus.

A speaker from the National Bank pointed out that increased competition through the deregulation of financial institutions meant that co-operatives should be less disadvantaged in raising finances. He stressed the importance of

presenting sound proposals to bankers and outlined the type of information they required.

A brief outline was given of the potential for credit co-operatives to become an effective co-operatively based financial service provider to the whole of the co-operative movement.

Speakers on taxation showed that proposed changes to tax laws will erode the relative advantages currently enjoyed by co-operatives.

The really bad news is that the tax increase from 46% to 49% will make the accumulation of reserves just that more difficult. The imputation system proposed may result in co-operatives operating with subsidiaries being unable to pass on to members the full benefits. In some circumstances 'profits' will be taxed twice — once as dividends and then again as rebates.

The seminar concluded with information on various government programs which could be of use to co-operatives. The availability of government guarantees to co-operatives was discussed. A program to assist co-operatives to draw up business plans was outlined.

More information about the seminar is available from the Federation. The papers given are being collated and will be available for wide distribution.

Proposed changes to taxation policies offer no encouragement to co-operatives. It could be said that co-operatives have in fact been overlooked. The changes will raise corporate tax to 49% for everyone, including co-operatives. The 3% increase is to pay for the introduction of an imputation system which will effectively remove the double taxation of dividend payments.

The imputation system will mean that tax paid by co-operatives will be taken into account at the shareholder level with respect to dividends received.

Co-operatives have long enjoyed a single tax system. They could rebate surplus back to members without tax, the member paying tax on the rebate at income tax marginal rates.

Co-operatives with subsidiaries should look carefully at their operations. They may find that they are unable to pass on to members the benefits of tax paid by subsidiaries. They may effectively face a double tax situation.

As this may not be intended by government, the CFV is acting to take the matter up on behalf of co-operatives.

With a corporate tax rate of 49% co-operatives will experience strong pressure to rebate all available surplus. Care must be taken to ensure that ongoing business needs are considered. Adequate capital and reserve levels are important to the sound financial management. All co-operatives should develop plans to cover their financial needs. A balance between building internal reserves, even if after tax, share capital, and external borrowings is necessary.

Co-operatives with low or nominal shareholding levels need to take particular care. Relying on retained earnings may prove to be a difficult and impractical task, a weak balance sheet being a handicap when attempting to gain finance from lending institutions.

Care must also be taken in relation to grants and subsidies from government. Unexpected grants may give rise to an unwelcome tax liability.

(If readers would like copies of papers presented at the recent finance and taxation seminar convened by the Federation, please contact us.)

CO-OPERATIVE FEDERATION

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Score one for the bureau!

Under the Co-operative Development Program (CDP) the Department of Employment and Industrial Affairs (DEIA) funds the RMIT Technical College School of Business Studies to co-ordinate the Conversion Co-operative Development Program.

The program aims to inform people about worker co-operatives and the ways in which conventional businesses can convert to become co-operatives.

Favourable circumstances for conversions include:

1. Where members of a partnership want to formalise 'co-operative' arrangements and extend ownership to all employees.
2. Where a private owner/manager has reached retirement and considers selling the business to the employees.
3. Where a large corporation has 'rationalised' its operations and considers selling the business to its employees.
4. Where economies of scale can be gained by small scale operations forming a co-operative to the mutual benefit of its members.

As part of the program a series of public seminars has been organised.

Directed at people in existing businesses, the seminar provided an overview and introduction to the issues which must be addressed before converting to a co-operative business model.

Topics covered include: What is a co-operative?, managing a co-operative — theory and practice, key factors for consideration before converting to a worker co-operative and financing a worker co-operative.

Program co-ordinator Peter Hyman from RMIT's School of Business Studies presented a paper on the theory of co-operative management from the perspective that a co-operative, although different, is nevertheless subject to the same economic and business management pressures as any other business.

"To understand the importance of management in a co-operative you need to look no further than the stated reasons of why co-operatives fail."

The reasons were listed as: "Too many meetings, too many discussions, too many unnecessary disputes, too much interference — both internally and externally, unclear job descriptions, inability to cost products and services, poor book-keeping practices, failure to understand the control function of book-keeping."

Additional problems include: "Workers enter co-operatives for the wrong reasons, co-operatives have attracted the wrong type of person, workers are not prepared to change attitudes to work, workers do not feel responsible towards co-operatives particularly if they have nothing to lose (re: equity), insubordination, dishonesty."

Peter proceeds through production, marketing and financial problems, the rights and duties of co-operative members, managers and management committees, and the three main management tasks: "Control and policy making, functional direction and operational organisations."

Although each area is covered in little more than point form, participants found it useful enough to request that the paper be made available as soon as possible.

Backyard Press worker Rainer Linz spoke on the practical side of co-operative management. Linz's experience in the highly competitive printing trade had him agreeing with much of Hyman's contribution. Linz was eager to stress the responsibility that accompanies the benefits and freedoms enjoyed in a worker co-operative.

Representatives from the CDP had the last word. They were anx-

ious to emphasise the new and 'embryonic' nature of the program, as well as the potential difficulties presented by co-operative conversion.

The CDP's 'Co-operative Conversion Process', presented as a guide only, includes eighteen steps:

1. Provision of CDP co-operatives publications to initiators.
2. Initiator(s) discussion with CDP.
3. Consultation with workers and owners to gauge interest in forming co-operatives.
4. Workshop (RMIT to organise). Workers, owners and union(s) to be invited.
5. Meeting of workers and owners to decide whether to proceed. If so, form working group.
6. Assessment by DEIA consultants - Financial status and systems marketing.
7. Consultants reports considered by workers, owners and DEIA.
8. Meetings of workers and owners to decide whether to proceed.
9. Workers form Steering Committee
10. (a) Assessment of skills (including management).
(b) Formulation of Education and Training Plan.
(c) Examination of costs and financing options (with consultants' assistance).
- (d) Contact Registrar of Co-operatives re rules and formation.
11. Workers meetings to consider reports of Stage 10 and to again decide whether to proceed.

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Co-operative education

Dr Tom Puchett, lecturer at Victoria University has recently returned from an extensive visit of co-operatives in Canada, the USA and Europe. He is introducing an elective course for his students as part of a new course in Social Work. This is one of the few formal institutions in the study of co-operative tertiary curriculum in Victoria. He has a series of case notes and uses in his course. One of these is reproduced in the next issue of general interest.

Christmas is coming

There have been yet more reports of the long awaited report of the Ministerial Advisory Committee on Co-operation (MACC). It is unlikely that the report will be released before February.

New logo

The Federation recently completed the design of a new logo for its members. As part of its strategy to increase awareness of the co-operative movement it is intended to adapt to diverse uses on a counter, the side of a building, office stationery... as well as on a neon! Clear co-operative branding will help to increase awareness and co-operation between co-operatives.

Co-operative director

The next newsletter will contain a questionnaire for all co-operatives.

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The information from the questionnaire will be compiled into a directory. As well as basic administrative information — name, address, phone number (and the like) space is provided for a brief description of the co-operative's main activity(ies). We also ask why the co-operative model was chosen and how the principle of democracy is applied.

Company co-operatives

Representatives of companies incorporated under the Companies (Vic) Code recently met with MACC. Predictably, the major topic of discussion was the on going process of recommending legislative changes.

Financial services

The Co-operative Federation and the Victorian Credit Co-operative Association have recently decided to survey co-operatives to identify what financial services they require with a view to matching these needs to the already extensive services offered by credit co-operatives.

Legislation is currently being set in place which will allow incorporated bodies of a co-operative character to become members of Credit Co-operatives.

Changes at the Registry

Kerry Nolan, Deputy Registrar of Co-operatives, has moved to a new position within the Ministry of Housing (MOH). Kerry has taken a position as manager of a MOH estate. His understanding and commitment to co-operatives will be a loss. Dan Henry is currently acting Deputy Registrar

The Bread and Roses Credit Union

In the basement of a United Church off Bathurst Street in central Toronto, is the office of an unusual credit co-operative, The Bread and Roses Credit Union. Started in 1978 by church people and social activists, this co-op has as its purpose the promotion of social change. The founders believed that funds are available to the community which could be used to assist projects which directly benefited a community. Usually such capital is deposited with banks or similar commercial institutions, where it is invested at the highest rate of return irrespective of a community's needs. Bread and Roses was set up to provide an alternative for groups and individuals committed to social

The financial system of the co-operative is both similar to and different from that of other credit unions. It is similar in that money is taken on deposit from members and used for loans to other members. It is different in that deposit accounts pay less than the market rate and that loans are made largely to groups whose activities fit into the co-operative's statement of purpose.

There are three main types of accounts: **Bread** accounts are current at-call accounts paying interest a point or two below that available elsewhere. **Roses** accounts are non-interest bearing accounts. All members must have at least \$5.00 in such accounts. Many members have substantially more, for example a religious order has a substantial sum in a Roses account. **Pastry** accounts are term deposits. Again, the rate is about one point below market rates. Current assets are about \$1,000,000.00.

Most of the capital available for loans goes to assist member groups. The credit union will not make loans for projects which exploit human beings or the environment. Instead, loans are made to eligible groups for purposes such as start-up and expansion capital to deal with cash flow problems. Examples of loans include money for construction of a playground at a co-op day care centre, financing equipment purposes for food co-ops and loans to peace organisations. Personal loans are limited to one-fifth of the loan portfolio. Personal loans are not made for individual consumer purposes (e.g., summer cottage or boat purchase) and the co-operative has resisted making mortgage loans. As with deposits, the interest rate on loans is a bit below market rates.

Regarding Administration, the credit union office is open Wednesday evenings and Saturday mornings. The office may be opened other week days by appointment. A good deal of the business is conducted by mail. Member communications include a newsletter and two membership meetings per year. Until recently, prospective members were required to attend an orientation session prior to being admitted to membership. Now, prospective members receive literature on the co-op and are contacted by a member of the management committee.

Source: Interviews with co-op staff and Chairman of the Co-op's board.



change. Like all credit unions it takes money on deposit and makes loans to its members. However, its purpose is to make community capital available to personal and organisational projects whose purposes promote social justice and/or the development of the community.

Membership is currently about 600. The co-operative bond is people who are promoting a just and equitable society and live in metropolitan Toronto. The co-operative's statement of purpose notes that "the members... share a desire for change towards an alternative society within which individuals can enjoy greater control and more choice in their lives..." Membership is made up of individuals and groups. Group membership is open to "any group which is engaged in co-operative or collective activities of an economic, political or cultural nature". Examples of group members include worker or consumer co-ops, religious bodies and labour unions. Individual membership is open to individuals who support the aims and objectives of the co-operative.

the bureau

12. Development of Enterprise Plan (Steering Committee assisted by consultants).

13. Proposal put to CDP Funding Committee.

14. Funding Committee recommendation considered by DEIA Director-General.

15. Group advised of decision. Funding Agreement to be signed.

16. Registration of co-operative (preceded by formation meeting at which Directors are elected).

17. Transfer of ownership.

18. Co-operative begins operation, assisted by counselling service.

A comment, from the floor at the very end of the three hour seminar was indicative of the CDP's selling pitch:

"As a public servant myself, I get very frustrated by an attitude which results in spending 20 minutes discussing why five minutes work shouldn't be done."

The CDP's conversion process does raise some doubts:

1. Although only a guide, one can be forgiven for doubting the latitude given to any bureaucrat to deviate from anything committed to paper as 'guidelines'.

2. Bearing in mind the stated reasons for the failure of co-operatives, as listed above, concern as to how you sustain an existing

business through a fundamental transition **and** attend "working group" meetings, consultants meetings and meetings with members of the CDP would also be legitimate.

3. Furthermore, the CDP places strong emphasis on business viability. At the end of such a long drawn out process, in some circumstances, there would be no business viability left to be assessed by the CDP. Does the CDP have the necessary expertise to distinguish between those businesses which would benefit from the process, and those which it would destroy?

A more cost effective and useful alternative to the current 'process' might be to provide business management advice, viability assessment and subsequent individually tailored development programs and supervision from the RMIT Business Studies Department via the program co-ordinator and other contracting professionals who are at least acquainted with the realities of maintaining a business.

The attendance of some thirty people at the seminar would suggest considerable interest in the idea of conversion and worker co-operatives.

With one success in twelve months, the CDP seems to have failed in capturing that interest.

FINANCE ARM OF THE MOVEMENT

Amendments to the *Co-operation Act* will soon become law. These amendments mainly concern Credit co-operatives and the development of a 'reserve bank' based on the current Credit Societies Guarantee Fund Advisory Committee.

Certain deregulatory provisions are also included. Membership of Credit co-operatives will be open to incorporated bodies that are co-operative in nature. This provision sets the scene for Credit co-operatives to effectively be the finance arm of the co-operative movement.

The amendments affect all co-operatives with respect to mergers and amalgamations. The next edition of this newsletter will contain details of these amendments.

CHRISTMAS, and all that...

The Co-operative Federation of Victoria's Office will be unattended from Tuesday 17 December 1985 until **Monday 6 January 1986.**

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WISHING ALL A GOOD CHRISTMAS AND NEW YEAR

Please send any information, announcement, question or problem you would like included, answered or canvassed, in the next edition of this newsletter to the above address no later than Wednesday 15 January 1986, addressed to the editor.